# COMMODITY PROCESSING ACTIVITIES

What is Happening Now? What is in the Future?

Facilitator, Dr. Jean Harris
Phoenix, Arizona
Biennial State Agency and USDA
Conference

# William T. Sessions Livestock and Seed Program Agricultural Marketing Service U.S. Department of Agriculture





# INITIAL SCHOOL YEAR PURCHASES

- **Earlier Invitations**
- Full/Open Competition
- Industry Preparation
- Redeploy Finished Loads
- **\*** Improved Communication



### GROUND BEEF PURCHASES

#### **School Years 2002-2003 and 2003-2004**

SCHOOL YEAR 2002-2003				
PRODUCT	Average Raw Material Cost	Average Cost per Pound		
Coarse	\$ 0.9310	\$ 1.2350		
Fine Ground	\$ 0.9278	\$ 1.2531		

SCHOOL YEAR 2003-2004				
Average Raw Material Cost	Average Cost per Pound			
\$ 1.1087	\$ 1.6041			
\$ 1.1233	\$ 1.5977			



### GROUND BEEF PURCHASES

SY 2002-2003 vs. SY 2003-2004

COMPARISON			
	Average Raw Material Cost Difference	Average Cost per Pound Difference	
Coarse	+ \$0.1777	+ \$ 0.3691	
Fine Ground	+ \$0.1955	+ \$0.3446	



# MICROBIAL PROFILES

#### **School Years 2002-2003 and 2003-2004**

MICROBIAL TEST	UPPER SPECIFICATION LIMIT	Cpk (Cpu) Value SY 2002-2003	Cpk (Cpu) Value 2003-2004
Standard Plate Count	100,000/gram	2.038	4.127
Total Coliforms	500/gram	.5889	2.135
Coagulase Positive Staphlococci	500/gram	12.81	16.94
E.Coli	100/gram	.4811	1.139



# MICROBIAL PROFILES

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#### **School Years 2002-2003 and 2003-2004**

PATHOGENIC	SPECIFICATION	PERCENT	PERCENT
MICROBIAL	LIMIT	INCIDENCE	INCIDENCE
TEST		2002-2003	2003-2004
	Positive Results/25		
Salmonella	grams	4.07%	2.75%
	Positive Results/325		
E.Coli 0157:H7	grams	0.724%	0.728%



# TOMATO/POTATO PILOT

- Six states participating thus far (PA-IL-TX-MS-AZ-CA)
- Testing standard yield and substitution
- USDA buys bulk from field
- Recipient provided, for example, salsa at a reduced case price



# NEW LIVESTOCK PROCUREMENTS

- Evaluation of purchase and delivery of "fresh-chilled combos" of boneless beef;
- Require changes in procurement, logistical, product requirements and require changes in way RA's contract with commercial producers
- Fresh chill purchases more closely align with good commercial practice, reduce costs, and possibly provide a safer product;
- Evaluation process continues for determination and circumstances of fresh chilled beef purchases for the Federal food & nutrition appropriateness.

# Commodity Processing 20 Years of Tradition.... Interrupted by Progress

Presented By: Sherry Thackeray
FDD Program Analyst

# REGULATORY CHANGES

- Federal Register
   October 23, 2002
- 7 CFR Part 250
  - 1. Single Inventory
  - 2. Substitution



# SINGLE INVENTORY



- Commercial labels began in 1996 in TEFAP
- Benefits
  - Reduced delivery delay
  - Increased competition
  - Reduced program costs
  - Eliminated "generic" stigma
- Recipient agencies

# SUBSTITUTION

# **Full Substitution**

- All commodities, except beef, pork, and poultry
- 100% yield



# **Limited Substitution**

- Poultry products
- AMS & FNS approved plan
- Only bulk pack chicken & turkey and chicken parts delivered by USDA vendors
- No 100% yield, AMS grading verify yield
- Standard yield or GMR

# SUBSTITUTION RULES

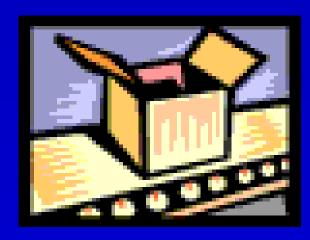
#### Substitute commercial food must be:

- Same generic identity
   Cheddar cheese ≠ Mozzarella cheese
   Cheddar cheese = Cheddar cheese
- Equal or better quality
- Domestic origin



# PROCESSING PROGRAM CHANGES

- Standard Yield
- NDM Processing
- National Contracts
- Net-Off-Invoice Alternate VPT
- Processing Initiatives Team (PITs)
- Part 250.30 re-write





# Standard Yield



- Products with high manufacturing losses
  - ~ Poultry
  - ~ Potatoes and Tomatoes (Pilot)
- Yield set higher than can be achieved, so processor must add raw commercial ingredient
- Advantages
  - ~ Fixed yield
  - ~ Consistent inventory draw down
  - ~ Eliminates production variables

# Nonfat Dry Milk



### BACKGROUND

#### FD-001: Nonfat Dry Milk Processing

\*Additional draw down 9% fluid milk 6% for whey

#### Rational...

More end products are made using milk = less milk converted to NDM for USDA to purchase

Waives 3 RegulationsYieldInventory Draw DownUtilization

#### Caveat...

Processors must use NDM in the formulation of the end product to be eligible for the additional draw down.

Prohibits substitution with concentrated skim

**\*EPDS** approved by FNS FDD HQ

# NDM STATISTICS Current as of December 5, 2003

- **30 Processors**
- 11 Cheese
  Manufacturers
- 21 Subcontractors
- 8 Cheese
- 13 Other Foods

- 806 EPDS Received
- 699 Approved
- 107 On Hold



# **Haverford School District, PA**

I just wanted to drop you a note to say thanks for all of your efforts in getting the ball rolling with the nonfat dry milk commodity program in our schools. During the past two years we at Haverford School District have been on a major campaign to increase the intake of different milk products. However, to date the single most program that has helped us get our kids to drink more milk is the new "Spongebob Squarepants" milk box. This company developed and marketed a drink box using non fat commodity dry milk that has the "Spongebob" cartoon graphics that our kids just love. (something like what Camel cigarettes did with "Joe Camel" only for the right reasons) Because of your efforts, this product was introduced at a price that we can afford and the fact that it is shelf stable for six months saves us even more money in storage and delivery cost. Again thank you for all of your efforts. They are not going unnoticed. -- Director of Food Services

# Boston Public Schools, MA

I'd like to take this opportunity to thank the USDA for taking the initiative to allow companies to produce products utilizing NDM. I would like to ask that you investigate the possibility of providing the aseptic shelf-stable milk products through the State DOE's monthly offerings to further reduce the price and reach so many other needy students.

There is a variety of delicious pasta products using NDM surplus that students really enjoy. These products meet the meal pattern for the NSLP and are reasonably priced. Innovative and trendy products help make our students want to participate more in our meal programs.

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# Processing Initiatives Team (PITS)

- Processing is Complicated!!
- Standardize & Electrify
- Technology & e-Gov
- Eliminate redundancies and manual data entry
  - National Processing Agreements
  - EPDS Approval
- Training
- Management Evaluations
- State Processing Regulations & Handbook

### **FSMC**



# OIG Investigation

- Rpt #27601-0027-CH
- April 2002

# Finding 1

- Fixed-Rate-Per-Meal Contracts
- FSMC profited by withholding the value of donated commodities

# CHALLENGES

- Are FSMC Processors?
- Crediting
  - Value of entitlement commodity
  - Bonus commodity
- Single Inventory
  - "Used" vs. "Received"

- Processing
- Substitution
- Food Ordering
- Monitoring

# DEFINITION OF A PROCESSOR

"Processor means any commercial facility which processes or repackages donated foods. However, commercial enterprises which handle, prepare and/or serve products or meals containing donated foods on-site solely for the individual RA under contract are exempt from this definition."

### FSMC as Processor

- Exempt prior to 1993
- Prepare products or meals containing donated food for more than one RA under more than one contract in the same facility



- Meals for any one RA off-site
- Not applicable to RAs

# SINGLE INVENTORY

### Fixed-price

- Invoice reduction for \$ of donated food
- Received vs. Used
- 1995 Guidance
- Other method

#### Cost-Reimbursable

- SFA could pay
   FSMC for commodity
- Either prohibit or
- Method to ensure commodity itemized on invoice

Inventory Used = Beginning Inv + Product Rec'd - Ending Inv.

### CURRENT REGULATIONS

7CFR 250.12(d)

- ...any donated foods received by a RA and made available to a FSMC shall be:
- Utilized solely for the purpose of providing benefits for the RA's food service operation, and
- 2) The RA's responsibility to demonstrate that the full value of all donated food is used solely for the benefit of the RA.

# CURRENT GUIDANCE

- Contracting with FSMC's: Guidance for SA and Guidance for SFA's – Issued 1995
- Situations where a FSMC subject to State Processing regulations 250.30
- Contract language required by regulations
- Provisions for ordering, utilization, storage, & inventory control
- Specify method & frequency by which SFA given full value of commodity

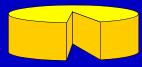
# Elaine Starr Freeman State of Georgia

# What is Commodity Processing/Reprocessing?

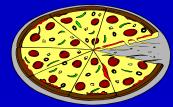
Raw, most basic form of USDA Commodity



More convenient, easier to use end form or *end product* 



















# Food Processing Programs Vary from State to State

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- Does the State enter into processing agreements on behalf of locals?
- Does the State meet Federal procurement guidelines for locals?
- Does the State limit the Processors or end products approved?
- Does the State consider nutritional contributions?
- Will all School Food Authorities have access to these products?

# Food Processing Programs Vary from State to State

# One constant:

Food Processing is technical in nature.

# The less a food item is touched, the less the cost.

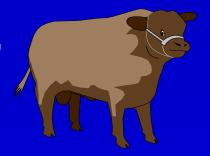




# Advantages of Using USDA Foods Available Only for Reprocessing

- More acceptable end product
- Higher yield
  - Coarse ground meat gives end product a better bite and higher yield.
- •Cost savings to school districts
  Foods ordered directly into Processors'
  plants, thus no distributor pick up fee,
  no backhaul freight cost.





# USDA Foods Available Only for Reprocessing

Bulk Chilled Chicken, Small **Bulk Chilled Chicken, Large Tankers of Frozen Liquid Eggs Frozen Orange Juice Tankers Barrels of Cheeses Bulk Coarse Ground Beef Bulk Coarse Ground Pork** 500 pound Drums Peanut Butter **55 gallon Drums Tomato Paste Bakers Hard Wheat Flour, Bulk** 

Bulk Oil for Processing
Bulk Chilled Turkey
Beef, Special Trim
Fresh Mozzarella Cheese
Bulk Chilled Turkey
Pork Picnic in 60 lb. case
Light Fowl

# Cost effectiveness is a very personal thing.



- Variables (such as type of USDA food to be used, location of food, entitlement/bonus, etc.)
- Individual Recipient Agency food service operational status
- Consider each reprocessing activity separately

## Is Commodity Processing Cost Effective?

Menu - Is the end product on RAs' menus? How often would/do they serve it? To how many students?

Kitchen Labor - Do RAs have sufficient labor hours/staff to prepare the end product from scratch?

<u>Severe Need Breakfast</u> – How would use of a further processed item affect the RA's severe need breakfast rate?

## Is Commodity Processing Cost Effective?

End product commercial cost - How much would it cost to purchase this end product through regular commercial food purchase channels?

<u>Added Cost Considerations</u> - Are there additional costs for commercial distributor storage/delivery?

## Questions/Potential Costs in Reprocessing

Where is the raw USDA commodity located? Will there be costs associated with the Processor getting the raw USDA commodity?

What is the Processor's cost for converting raw USDA commodity into end product?

How much loss of raw product will occur during the production of end product?

## Questions/Potential Costs in Reprocessing

What is the cost of obtaining the same product under processing compared to purchasing the commercial counterpart?

What warehouse, storage, delivery costs are associated with getting the end product back from the Processor?

## Two Ways to Obtain Processed Items

#### 1. Fee for Service

The price charged by pound or case representing Processor's costs of ingredients (other than USDA food), labor, packaging, overhead incurred in converting USDA food into end product.

#### 2. Value Pass-Through System

A system used to ensure that the full value of the USDA food contained in the "end product" is passed on to the eligible purchasing RA.

## 1. Fee for Service

- Traditionally meat and poultry
- Price per pound



– Delivered \$ or FOB plant \$

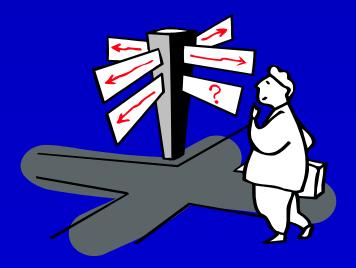
## Fee for Service - Delivery and Invoicing

- 1. If processor delivers ⇒ RA directly
  - Bills RA fee for service delivered
- 2. If processor delivers ⇒ Distributor
  - RA billed fee for service by processor and billed delivery and storage by distributor
  - Processor arranges delivery through distributor and processor's invoice includes fee for service and distributor's charges as separately, identifiable charges

## 2. Value Pass-Through System

#### Which to use?

Each State Agency must decide which method(s) of Value Pass Through will be approved for use in that State.



## Value Pass-Through System Types

#### When RAs pay Processor for End Products, must be by:

<u>Discount System (direct discount sale)</u> – RA purchases end products directly from a Processor at an established wholesale price minus the contract value of USDA commodity contained

Refund System (direct refund sale) – RA purchases
Processor's end product, RA submits refund request,
Processor pays RA value of USDA commodity contained,
primarily substitutable food

<u>Alternative Value Pass-through System</u> – must be approved by USDA as requested by SDA and value of USDA commodity passed to RA, verify sales

## Value Pass-Through System Types

When Processor transfers End Products to <u>Distributor</u> for delivery and sale to RAs, must be by:

Refund System (indirect refund sale) – Processor sells to Distributor at commercial/gross price, Distributor sells to RAs at commercial/gross price plus delivery costs, RA submits refund application, Processor pays RA for value of USDA, primarily substitutable food

<u>Hybrid System (indirect discount sale)</u> – Processor sells to Distributor at commercial/gross price, Distributor sells to eligible RAs at net case price (commercial/gross price less discounted value of USDA contained) plus Distributor's mark-up, Distributor applies for refund or credit for value of USDA commodity contained, sales verification system required, combination of discount and refund systems

## Value Pass-Through System Types

When Processor transfers End Products to <u>Distributor</u> for delivery and sale to RAs, must be by:

#### Alternative Value Pass-through System

- Requires approval from USDA FNS at request of State Agency
- Sales Verification System required
- Paperwork and resource burden considered before approval granted

#### **Approved Alternative Value Pass-through Systems:**

Net Off Invoice (NOI) – slight variation of Hybrid system, concept is for Distributor to sell to RA at net price and Distributor uses velocity report as rebate application to Processor, for fully substitutable items (must do identical commodity and commercial items)

## ACDA to the Rescue...

The

Processing

Agreement

Protecting RAs and USDA Foods



## **Protecting RAs and USDA Foods**

- End Product Data Schedule
- Processing and Fabrication Procedures
- Processor's Quality Control Plan Description
- Monthly Performance Reporting Requirement
- Lobbying Certification Assurance
- Properly executed performance supply and surety bond or Letter of Credit

RAs can enter into their own processing agreement, must adhere to all regulations and guidelines, and must submit their processing agreements to SA for review and prior approval.

## **Food Processing Trends**

	2003 ACDA Survey
Number of Contracts	1,122
Number Approved End Products	14,825
Full Time Staff Managing	51
Does Statewide Bids	12
State workshop/exhibit high-lighting re-processed items	27

Above based on 40 State Responses

## **National Processing Program (NPP)**

Why national processing instead of state or local level?

	USDA State	
Contract Approval	X	
EPDS Approval	X	
Bond	X	
Food Ordering		X
Create/Maintain RA File		X
<b>Monthly Performance Reports</b>		X

One contract, one EPDS approval, one bond, nationwide access to processed products, reduced processor and state/local costs.

## Pilots, Pilots, and more Pilots

#### **Active Projects**

Guaranteed Return (Project #10)
Minnesota Pilot (Project #11)

#### **Pilots Completed**

**Process Control Certification Program (Project # 1)** 

**Limited Substitution (Project #2)** 

**Poultry Substitution Program (Project #3)** 

**Poultry Banking System (Project #4)** 

**Internet Ordering - Commodity Cheese On-Line (Project #5)** 

**Multi-Stop Pilot (Project #6)\*** 

California Credit Pilot (Project #9)\*

**New Jersey Chicken Pilot (Project #12)\*** 

<sup>\*</sup> Ending June 2003

## Pilots on Top of Pilots

#### **Cancelled Projects**

Bundled Orders for Reprocessing Ground Pork & Poultry (Project #7)

**Commercial Spec for Boneless Beef (Project #8)** 

#### **Related Pilots**

Livestock Processors Participating in Demo. Projects
Poultry Processors Participating in Demo. Projects
National Processing Pilot Program & List of Approved
Processors

For more information about each pilot, go to:

www.commodityfoods.usda.gov
and click on FD-2000/Pilot Updates

## Food Distribution Program Needs

## **Training**

Specific, Technical (such as in Food Processing) Basic FDP Operation Consistent Messages Timely Information

**Maintain Accountability & Integrity** 

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## 12 % ISSUE

## The Richard B. Russell National School Lunch Act

requires at least 12% of federal assistance to schools be in form of USDA commodities

#### The Ticket to Work and Work Incentives Improvement Act of 1999

amended School Lunch Act to require USDA to count value of bonus commodities toward 12%

#### \* \* \* \* \* \* \* \* \* \* \* \* \* \*

#### 12% Rule (continued)

Effects of The Ticket to Work and Work Incentives Improvement Act of 1999?

#### **Nationally**

- \$500 million cut in school lunch commodity assistance over nine years
- reduction of 759 million pounds of food

Bottom Line: What is your loss?
Range of .0125 cents to .02 cents per meal

NOTE: "Fix" each year since FY 99

Current "fix" just expired

Some months before another "fix"

# Maximum Utilization of Entitlement Dollars



## **ECOS**



Login:	
Password:	Login

Welcome to USDA Online Ordering

Or enter as a guest and browse our catalog.



USDA's Food and Nutrition Service (FNS) was established to provide:

- · needy people with access to a more nutritious diet
- · improve the eating habits of the nation's children
- stabilize farm prices through the distribution of surplus foods

The Food Distribution Division (FDD) at FNS Headquarters works with Regional Offices (RO) and State Distributing Agencies (SDA) to determine the commodities available to the many different food assistance programs.

FNS calculates the respective "fair share" of commodities for each SDA based on entitlement and budget data.

This site allows SDAs and Recipient Agencies (RA) to place orders for the commodities offered by FNS.

Accessibility Statement | Privacy and Security Policy | Nondiscrimination Statement | FOIA | USDA | Contact Us

## ECOS from the RA Perspective

- Bonus/entitlement values on report screen allowing RAs to compare "regular" commodity versus processed
- All processed orders ordered in pounds; items now allocated at Processor
- RAs (rather than SDA input numbers)—what RA wants and pounds to each Processor on ECOS

## ECOS from the RA Perspective

- RA immediate access to reports of processed and "regular" orders
- RA inputs one figure per USDA survey rather than breaking requests up by month
- Extensive training needed prior to implementing to RA level—such as which "raw" commodity makes which end product and how to calculate poundage needed

## ECOS from the SDA Perspective

- Huge training effort prior to implementing to RA level
- Split Loads (with other states) easier to accomplish
- Can view what RA wants easily
- Can generate reports to Processors for their input into their databases

## ECOS from the SDA Perspective

- USDA surveys are promptly displayed—no waiting for fax
- Filter mode allows SDA to send down to RA only those items the SDA wants
- Varied reports view processing many different ways (drawback: only one destination at a time)
- ECOS can't break pounds down into separate ship dates (being resolved)



## 2003 Issue Paper

## **COMMODITIES TODAY**

from a Recipient Agency's Point of View

Julie Lewis
Mesa Unified School District
Mesa, Arizona

## Positive Effects from the Reinvention Plan of FD 2000

- Recipient agencies no longer have to accept commodities in a form that in not suitable and practical.
- Changes in the workforce and the lack of time and/or resources needed for adequate training has led to the demand for further processed foods.
- Changes in our customer's tastes and preferences driven by the marketing of convenience foods and changes in the home environment has led to the demand of further processed foods.
- Safety and sanitation issues have resulted for more demand for pre-cooked and/or individually packaged items

# Positive Effects from the Reinvention Plan of FD 2000

- The delivery of commodities is more predictable and efficient than in the past. As as result, recipient agencies are now able to plan menus based on student preferences versus having a commodity-driven menu.
- The substitutability of commodities has made the delivery of commodities more streamlined. Recipient agencies are now able to obtain commodities earlier in the school year versus having to wait until the actual buy of commodities.

## Room for Improvement

- There is still a lack of information and/or communication when commodities are put on hold or recalled. Many times products are quarantined too long and go unused as the end of the school year approaches.
- There are still questions regarding single line inventory.
   When combining commercial products and commercial labeled commodities, inventories at individual school sites becomes difficult when determining the actual value of the inventory on hand.
- Increased fee for service prices for further processed commodities due to increased freight costs and other operational costs have often resulted in non use of entitlement dollars.

## Room for Improvement

- Some commodity processors claim to be fully substitutable yet require orders for an entire school year in advance. More leniency to the the recipient agencies is needed as student's preference's change as the seasons change.
- There is a dire need for USDA to standardize procedures to all states. In some areas, RA's dictate to the state what they want, when they want it, and where they want it delivered. In contrast, other state departments dictate to the RA's what commodities are available, the fair-share quantity offered, and the cost for distribution to the final destinations. Moreover, entitlement dollar availability is handled differently across the borders. School districts must have the ability to make choices that are in the best interest of its customers, the students in the classroom.

## New Commodity Opportunities on the Horizon

- The utilization of bonus nonfat dry milk into several end products now enables recipient agencies to divert more entitlement dollars to center of the plate items in an effort to reduce food costs.
- More manufacturers are working together with various commodities to help recipient agencies further reduce the unit costs for end products.
- There is always continuous pressure to become more efficient and effective with less resources. Because of the changes in the commodity program, we are now able to work smarter and not harder.